Volatile Prices Expected Again This Year

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Cotton prices are mixed while corn, soybeans, and wheat prices are down for the week. Markets will be closed Monday, February 18 for President's Day. The USDA supply & demand reports released on February 9 were mostly neutral to friendly but other data and information has tended to overshadow those reports. There is no doubt that this year will be another year of volatile prices as the market tries to sort out potential weather problems, large acreages of corn and soybeans and a reduction in cotton acreage. Crop outlook, particularly for soybeans and grains is much the same as it was a year ago. Weather and possibly Chinese agricultural policy will most likely be the market drivers to watch. This is shaping up to be a good year to implement some type of option strategy. I encourage producers to learn more about options and considering using some of the strategies available. The basic strategy we look at is buying a put option which protects us in case the market moves down. This sets a floor price and if we can lock in a floor price that is profitable then it should be considered. Markets have quite a bit of risk this year.

Corn:

Nearby: Weekly exports were within expectations with net sales of 11.2 million bushels (8.9 million bushels for the 2012/13 marketing year and 2.3 million bushels of net sales for the 2013/14 year). Ethanol production rose 15,000 barrels per day to 789,000 barrels per day in the latest report. USDA did project ending stocks at 632 million bushels, a little higher than expected.

New Crop: I think it is a little too early for the new crop market to collapse with drought condition still existing in the western Corn Belt. Granted there is not any seed in ground, but that area looks to be starting out with little to no sub soil moisture. There is concern on just how much demand has been hurt with prices going into this year. Currently, I would have 10 percent of 2013 production priced. Target the $6.20 - $6.50 range for additional pricing or for an opportunity to implement an option strategy.

Cotton:

Nearby: All cotton weekly export net sales were better than expected at 398,000 bales (185,700 bales of Upland cotton net sales for 2012/13; net sales of 171,500 bales of Upland cotton for 2013/14; net sales of 23,500 bales of Pima cotton for 2012/1 and net sales of 17,600 bales of Pima cotton for 2013/14). I would be 75 percent priced on 2012 cotton. Ending stocks were reduced last Friday to 4.5 million bales on increased exports. There is some consideration that exports may need to be increased again. The huge world surplus of 81.86 million bales is currently keeping a lid on the market. With China holding 52 percent of the world stocks followed by India with 11 percent, there is much uncertainty on the direction their cotton related policies will take and maybe some uncertainty on their numbers. Chinese policy with respect to their stocks will influence the market, the direction is unknown. I would target 85 - 87 cents to price remaining cotton.

New Crop: The National Cotton Council released their annual producer acreage February 10th. At 9.01 million acres or a reduction of 26.8 percent from 2012, this could be the low acreage mark for the year. Still, considering current prices for harvest delivery, cotton is taking a backseat to corn and soybeans. However, it does appear there is more downside risk for the grain crops than cotton. For producers set up to raise cotton, I still think it should be in the mix. Cotton equities on 2013 loan cotton look to end the week in the 24 cent range.

Soybeans:

Nearby: Weekly exports were below expectations with net sales at 8.7 million bushels (net reductions of 4 million bushels for 2012/13 and net sales of 12.7 million bushels for 2013/14). The market will closely be watching exports to determine whether cancellations like were reported this week will be the norm rather than the exception. USDA did project a drop in ending stocks to 125 million bushels, a tight 4.1 percent stocks to use ratio. However, the focus seems to be on the large South American crop which is starting to hit the world market. There are port issues with getting their crop shipped out and those delays will be to the U.S.'s advantage. January crush numbers of 158.2 million bushels reported by the National Oilseed Processors Association were 2.4 million bushels less than expected, but 10.8 percent above a year ago.

New Crop: With strong demand numbers and questionable weather, it is a little early for soybeans to drop dramatically. I would have up to 10 percent priced on 2013 production. I think there may be an opportunity for additional pricing at higher levels or an opportunity to put in place an option strategy.

Wheat:

Nearby: Weekly exports were well above expectations at net sales of 25.9 million bushels (23.9 million bushels for 2012/13 and net sales of 2 million bushels for 2013/14). USDA projected U.S. ending stocks at 691 million bushels, less than expected.

New Crop: Weather conditions are offering some support, considering that 59 percent of the winter wheat acreage is under drought conditions with 43 percent in areas rated as being in extreme or exceptional drought conditions. I am currently priced 10 percent on the 2013 crop and would consider targeting the $8.30 - $8.50 range for pricing opportunities. Δ

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